

# BUDGET LETTER

<b>SUBJECT:</b> ESCALATION OF CONSTRUCTION COSTS FOR STATE FUNDED CAPITAL OUTLAY PROJECTS	<b>NUMBER:</b> BL 08-13
<b>REFERENCES:</b> SAM SECTION 6818	<b>DATE ISSUED:</b> July 25, 2008
	<b>SUPERSEDES:</b> BL 07-18

TO: Agency Secretaries  
Department Directors  
Department Budget Officers  
Department Accounting Officers  
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

## Project Cost Estimates and CCCI Escalation Procedures

Consistent with BL 07-18, the Department of General Services (DGS) will continue to publish each month the current California Construction Cost Index (CCCI) data at:

<http://www.documents.dgs.ca.gov/resd/pmb/ccci/cccitale.doc>.

Departments must apply the most recently published CCCI when preparing budget package, preliminary plans, or working drawings estimates for a given project. These costs shall represent the estimated hard (direct) costs at the time each estimate is prepared.

The current costs for each project shall be escalated on a monthly basis starting from the date the CCCI for the project was last updated to the estimated start and mid-point of construction at a rate of **0.42** percent, as recommended by DGS. This escalation represents a projected annual increase of 5.0 percent and is intended to help offset future CCCI increases. The monthly escalation is not to be compounded; instead the escalation to the start of construction is to be calculated by multiplying the number of months estimated between the date the CCCI for the project was published and the start of construction by 0.42 percent.

## Examples:

**See attached Example 1:** If a budget package for a new project is completed in May 2005, the published CCCI of 4393 (4393 used for example only) will be used for the estimate. In this example the start of construction is estimated to be 40 months from the date of the estimate, the construction contract amount is \$500,000 and the escalation rate is .0042/mo. The equation would be  $\$500,000 \times 40 \times .0042$ , which equals \$84,000. The same calculation is completed for the mid-point of construction; however, the estimated total current costs plus the escalation to the start of construction are combined to be used as the base. The equation would be  $\$584,000 \times 5 \times .0042$ , which equals \$12,000.

**See attached Example 2:** The preliminary plans are completed in June 2007 for the same project, and the CCCI at that time is 4855 (4855 used for example only), and the new construction estimate is prepared totaling \$549,000. Now only 15 months will remain between the completion of preliminary plans and the start of construction. Using the same calculations as noted above, the new escalation amount for this project will be \$35,000 to the start of construction and \$12,000 to

the mid-point of construction, for a total escalation of \$47,000. Notice that the increase in CCCI was fully offset by the reduced escalation period.

**See attached Example 3:** A new estimate is prepared during working drawings in May 2008 to reflect a requested scope change to add a kiosk to the project. The CCCI at that time is 5252 (5252 used for example only), and the new construction estimate is now \$600,000 and is escalated using the calculations noted above for a total contract amount of \$630,000. Because this amount is different from the contract amount previously reported, this change must be reported per the instructions provided below (Project Cost Reporting Requirements).

Note: Departments are required to base their 2009-10 Capital Outlay Budget Change Proposals (COBCPs) on the published CCCI as described above. Because the above instructions are consistent with those provided last year (BL 07-18), previously submitted 2009-10 COBCPs should not need to be updated to recalculate construction costs. However, any revised COBCPs must be submitted to Finance no later than **September 2, 2008** (per BL 08-01).

### Project Cost Reporting Requirements

Departments must provide project cost information at various project milestones, such as preliminary plan approval, augmentation requests, and other project approvals. When requesting an action or approval from Finance or the State Public Works Board (PWB), each request must contain the standard fiscal reporting documents, including a Capital Outlay "Cost, Funding, and Schedule Summary" (CFSS) and a "Project Cost Detail Estimate" (per SAM section 6845). Additional information should be provided as appropriate to justify the request.

To facilitate the review of these requests, it is critical that the fiscal reporting documents are completed properly. Because there are many factors that can affect project costs, including schedule delays, abnormally high CCCI increases, and project design changes, **departments must provide a detailed breakdown of any project cost changes on the fiscal reporting documents to clearly explain these changes.** Specifically, the CFSS (used for Example 4 below) was amended to include a section that provides a detailed breakdown of any cost increases or decreases, which needs to be completed for any request that includes a change to previously reported project costs.

### Examples:

**See attached Example 3:** As described above, a new estimate is completed as part of a scope change request package in May 2008. The CCCI at that time is 5252 (5252 used for example only) and the direct costs are now \$600,000, an increase of \$51,000. Overall project costs have increased by \$36,000 to \$662,000. Because the amount of this estimate is different from the prior estimate, the factors that contributed to this change must be detailed in the standard reporting documents, as described above.

Although the direct costs in this estimate are \$51,000 higher than the previous estimate, almost 12 months have passed since the last estimate was prepared, which assumed an escalation rate of 5 percent (.0042). The actual CCCI used for this estimate has increased to 5252, which represents an annual rate of 8.5 percent (0.0071). The difference between the anticipated and actual CCCI increase is 0.29 percent (0.0029). Using the previous base of \$549,000 multiplied by the CCCI differential and the number of months since the previous estimate was prepared, will yield the portion of the project costs attributed to the difference between the actual and projected CCCI. The equation would be  $\$549,000 \times .0029 \times 11.5$ , which equals approximately \$18,500.

Other factors also contributed to the cost increase for this project. The start of construction has been delayed until November 15, 2008, which is a 2.5 month delay, and the construction period

has been extended by two months, extending the mid-point of construction by one month. The cost implications of these changes can be calculated by multiplying the new base (\$600,000) by the number of additional months to the start of construction (2.5) by the projected CCCI escalation rate (0.0042), which equals \$6,300. This calculation is repeated for the one-month delay to the mid-point of construction, except this formula takes the direct cost as escalated to the start of construction (\$615,000) multiplied by one month of escalation (0.0042), which equals \$2,600. Combined, these schedule adjustments have resulted in an additional \$8,900 in project costs.

The contingency amount is simply a percentage of the contract amount. The difference in the contingency can be calculated by subtracting the previous amount from the new amount. In this example, the difference in the contingency is \$32,000 minus \$30,000, for a \$2,000 change.

The final category titled "Other" is used to detail all other factors that contributed to the change in project costs. In this example used, the amount of other changes is \$6,700 and can be calculated by subtracting all of the specific categories described above from the total change in project costs. Because this category could potentially include multiple factors, it may be necessary to provide a separate breakdown of these costs. In this example, the \$6,700 in other changes is due to a scope change.

**See attached Example 4:** Finally, a new cost estimate is prepared at the conclusion of working drawings in November 2008 with a CCCI of 5400 (5400 used for example only). Total contract costs at that time have increased to 674,000, an increase of \$46,000. Using the same calculation as in the previous example, the various factors that contributed to this increase are computed. Although direct costs increased by \$50,000, the actual CCCI increased only slightly more than the projected rate (0.47 percent per month), which resulted in an additional \$1,700 in costs. The start of construction was delayed two months and the construction schedule was extended by one month. Combined, these schedule changes resulted in \$4,000 in additional costs. In this example, the majority of the change in project costs is due to other factors (\$38,300). It is this amount that needs to be explained in greater detail. This additional information can be provided in various formats; the only requirement is that the reasons for the changes need to be clearly stated.

**See attached Example 5:** As noted above, when requesting any action or approval from Finance or the PWB, the standard fiscal reporting documents must be provided. Examples 1 through 4 were focused on the direct cost portion (first page) of the standard 3-Page Estimate. Example 5 details how the information contained in each of the 3-Page Estimates for the previous examples should be displayed in the Cost, Funding, and Schedule Summary (CFSS).

Starting from left to right on the attached CFSS, cost information for Example 1 is contained in the second column from the left, followed by Examples 2 through 4 in the columns to the right, respectively. The most significant change to the CFSS has been the addition of the "Cost Increase/Decrease" section at the bottom of CFSS. This section must be filled-out if there are any changes to the previously reported construction contract estimate. Because there were no changes in the contract amount between the first two examples, this section does not contain any information. However, the changes described above for the next two examples are displayed in this section of the CFSS.

### **Instructions for Projects Not Managed by DGS**

The escalation procedures and reporting requirements for projects not managed by DGS are the same as described above, except that alternative fiscal reporting documents may be used that differ slightly from the attached examples. However, any alternative fiscal reporting documents must contain substantially the same information as required for DGS managed projects and must be approved by Finance.

For any questions, contact your Capital Outlay budget analyst at (916) 445-9694.

/s/ Greg Rogers

Greg Rogers  
Assistant Program Budget Manager

Attachments

**DEPARTMENT OF GENERAL SERVICES  
REAL ESTATE SERVICES DIVISION – PROJECT MANAGEMENT BRANCH  
PROJECT COST SUMMARY**

PROJECT:	DOF Example 1	BUDGET EST.:	B5DOF1AP
LOCATION:	N/A	Actual CCCI:	4393
CLIENT:	Department of Finance	DATE ESTIMATED:	5/1/2005
DESIGN BY:		ABMS NO.:	
PROJECT MGR:		PREPARED BY:	JDE
TEMPLATE:	Design / Bid / Build – Bond	DOF PROJ. I.D. NO.:	

**DESCRIPTION**

**ESTIMATE SUMMARY**

**DIRECT COST**

Landscaping	\$200,000
Sidewalks	\$100,000
Lighting	\$200,000

**ESTIMATED TOTAL CURRENT COSTS:**

**\$500,000**

Adjust CCCI from 4393 to 4393

**ESTIMATED TOTAL CURRENT COSTS ON 5/1/2005**

**\$500,000**

Escalation to Start of Construction 40 Months @ 0.42% / Mo.: \$84,000

Escalation to Mid-point 5 Months @ 0.42% / Mo.: \$12,000

**ESTIMATED TOTAL CONTRACTS:**

**\$596,000**

Contingency At: 5% \$30,000

**ESTIMATED TOTAL CONSTRUCTION COST:**

**\$626,000**

**DEPARTMENT OF GENERAL SERVICES  
REAL ESTATE SERVICES DIVISION – PROJECT MANAGEMENT BRANCH  
PROJECT COST SUMMARY**

PROJECT:	DOF Example 2	PRELIMINARY EST.:	P7DOF1AP
LOCATION:	N/A	Actual CCCI:	4855
CLIENT:	Department of Finance	DATE ESTIMATED:	6/01/2007
DESIGN BY:		ABMS NO.:	
PROJECT MGR:		PREPARED BY:	BKD
TEMPLATE:	Design / Bid / Build – Bond	DOF PROJ. I.D. NO.:	

**DESCRIPTION**

**ESTIMATE SUMMARY**

**DIRECT COST**

Landscaping	\$219,000
Sidewalks	\$110,000
Lighting	\$220,000

**ESTIMATED TOTAL CURRENT COSTS:**

**\$549,000**

Adjust CCCI from 4855 to 4855

**ESTIMATED TOTAL CURRENT COSTS ON JUNE 2007**

**\$549,000**

Escalation to Start of Construction 16 Months @ 0.42% / Mo.: \$35,000

Escalation to Mid-point 5 Months @ 0.42% / Mo.: \$12,000

**ESTIMATED TOTAL CONTRACTS:**

**\$596,000**

Contingency At: 5%

\$30,000

**ESTIMATED TOTAL CONSTRUCTION COST:**

**\$626,000**

**DEPARTMENT OF GENERAL SERVICES  
REAL ESTATE SERVICES DIVISION – PROJECT MANAGEMENT BRANCH  
PROJECT COST SUMMARY**

PROJECT:	DOF Example 3	W. D. ESTIMATE:	W8DOF1AP
LOCATION:	N/A	EST. / PROJ. CCCI:	5252 / 5252
CLIENT:	Department of Finance	DATE ESTIMATED:	5/15/2008
DESIGN BY:		ABMS NO.:	
PROJECT MGR:		PREPARED BY:	BKD
TEMPLATE:	Design / Bid / Build – Bond	DOF PROJ. I.D. NO.:	

**DESCRIPTION**

Example 3

**ESTIMATE SUMMARY**

**DIRECT COST**

Landscaping	\$237,000
Sidewalks	\$119,000
Lighting	\$237,000
Kiosk	\$7,000

**ESTIMATED TOTAL CURRENT COSTS:**

\$600,000

Adjust CCCI from 5252 to 5252

**ESTIMATED TOTAL CURRENT COSTS ON 5/15/2008**

\$600,000

Escalation to Start of Construction 6 Months @ 0.42% / Mo.: \$15,000

Escalation to Mid-point 6 Months @ 0.42% / Mo.: \$15,000

**ESTIMATED TOTAL CONTRACTS:**

\$630,000

Contingency At: 5% \$32,000

**ESTIMATED TOTAL CONSTRUCTION COST:**

\$662,000

**DEPARTMENT OF GENERAL SERVICES  
REAL ESTATE SERVICES DIVISION – PROJECT MANAGEMENT BRANCH  
PROJECT COST SUMMARY**

PROJECT:	DOF Example 4	W. D. ESTIMATE:	W8DOF1AP
LOCATION:	N/A	EST. / PROJ. CCCI:	5400 / 5400
CLIENT:	Department of Finance	DATE ESTIMATED:	11/15/2008
DESIGN BY:		ABMS NO.:	
PROJECT MGR:		PREPARED BY:	BKD
TEMPLATE:	Design / Bid / Build – Bond	DOF PROJ. I.D. NO.:	

**DESCRIPTION**

Example 3

**ESTIMATE SUMMARY**

**DIRECT COST**

Landscaping	\$272,000
Sidewalks	\$121,000
Lighting	\$242,000
Kiosk	\$15,000

**ESTIMATED TOTAL CURRENT COSTS:**

\$650,000

Adjust CCCI from 5400 to 5400

**ESTIMATED TOTAL CURRENT COSTS ON 11/15/2008**

\$650,000

Escalation to Start of Construction 2 Months @ 0.42% / Mo.:

\$5,500

Escalation to Mid-point 7 Months @ 0.42% / Mo.:

\$18,000

**ESTIMATED TOTAL CONTRACTS:**

\$674,000

Contingency At: 5%

\$34,000

**ESTIMATED TOTAL CONSTRUCTION COST:**

\$708,000